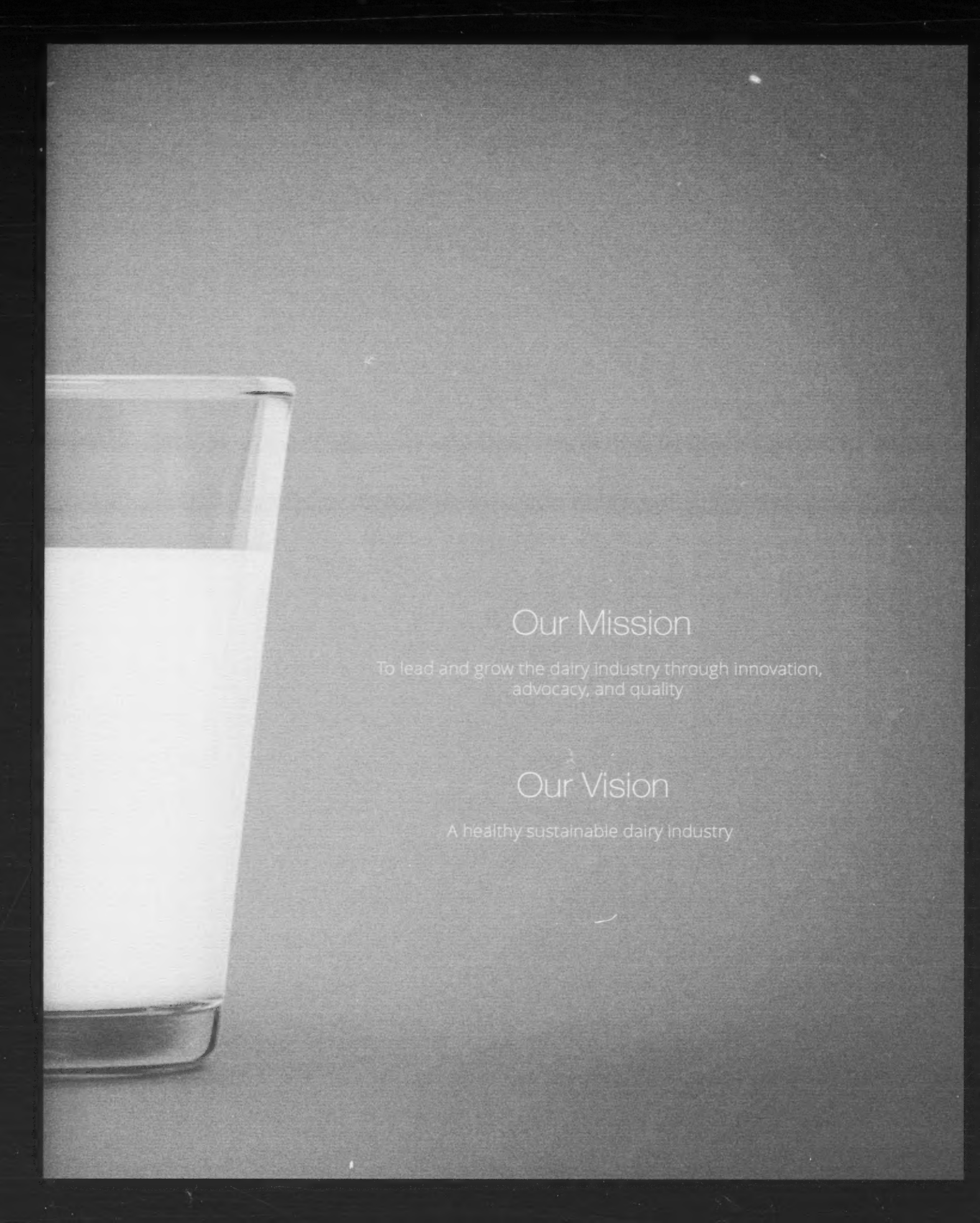
2016-2017 Annual Report

MY MILK

Saskmilk


Our Mission
To lead and grow the dairy industry through innovation, advocacy, and quality
Our Vision
A healthy sustainable dairy industry

Board of Directors 2015-2016

Melvin Foth,
Chair
Box 497
Hague, SK
S0K 1X0

Ryan Enns
Box 463
Osler, SK
S0K 3A0

Blaine McLeod
Box 383,
Caronport, SK
S0H 0S0

Brad
Kornelius,
Vice-Chair
Box 509
Osler, SK
S0K 3A0

David Entz
(to Nov. 2016)
Box 100
Pennant, SK
S0N 1X0

Brian
Lindenbach
Box 192
Balgonie, SK
S0G 0E0

Denise Coghill
Box 50
McLean, SK
S0G 3E0

Jack Ford
Box 250
Wishart, SK
S0A 4R0

Tom Mackenzie
R.R. #1
Zehner, SK
S0G 5K0

Leonard Wipf
(from Dec. 2016)
Box 130
Kenaston, SK
S0G 2N0

Staff

Keith Flaman
(to April 2017)
General Manager

Peter Brown
(from April 2017)
General Manager

Jenn Buehler
Administrative Assistant

Dianne Cardinal
HR Coordinator/Producer
Payment Officer

Bev Eckert
Promotions Assistant

Deb Haupstein
Dairy Specialist

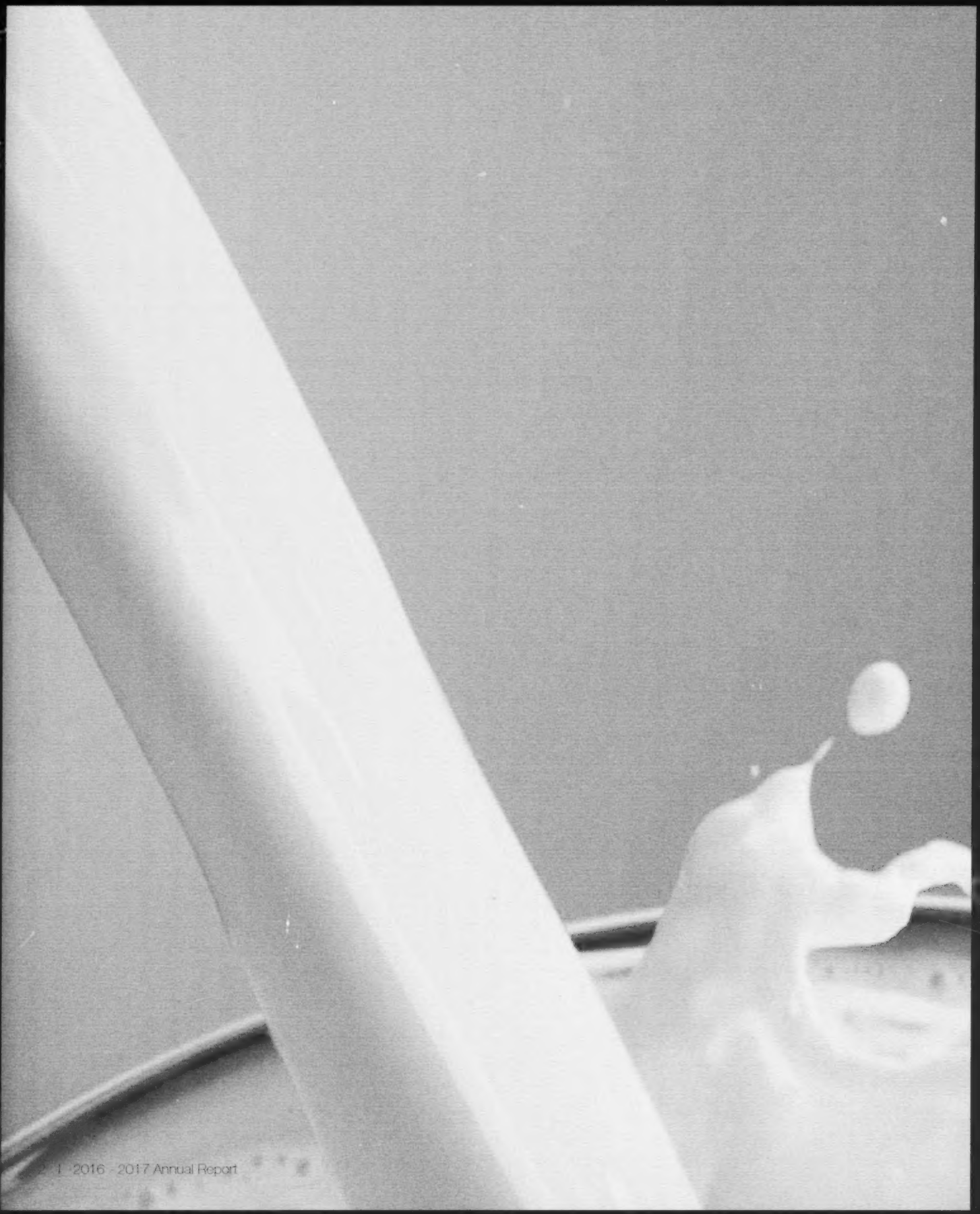
Anita Medl
Marketing Manager

Doug Miller
Manager Finance & IT
Services

Joy Smith
Manager Policy &
Communications

Bev Solie
Quota Management Officer

Darlene Weighill
Financial Officer



2016/2017 SaskMilk Highlights

- Donated over 15,000 litres of milk to Saskatoon and Regina Food banks
- Supported 44 youth events
- Provided sponsorship items and funding to over 150 events in Saskatchewan
- Supported SHSAA with over $53,600 funding
- Welcomed 12 new entrants through the DEAP program
- Saskatchewan reduced our lost opportunity production by 86% in 2016/17 from the previous year
- 100% of Saskatchewan dairy farmers met the proAction® requirements
- SaskMilk representatives met with 9 of Saskatchewan's 14 MPs during Lobby Day in Ottawa in February; also met with Senators for the first time in 2017
- 69 Nutrition Workshops delivered in 28 school divisions, reaching over 1900 students
- Supported over 30 research projects
- Provided over $550,000 in funding to research projects and operations of the Rayner Dairy Research and Teaching Facility
- SaskMilk Board and staff represented SaskMilk at meetings and events of more than 26 organizations

Chair Report

I am pleased to report on the activities and direction of the SaskMilk Board during the 2016-2017 dairy year. The SaskMilk Board worked hard to set the stage for the future, be strategic and progressive in our planning, and develop policies that will drive the change necessary to be sustainable.

We are in a significant and sustained growth period with the demand for cheese, butter, and cream growing at very significant rates. We issued 6% in quota increases this year, and continued to send growth signals by announcing planned quota increases and incentive days up to a year in advance. This was done to encourage farmers to plan, invest, and prepare for the future production needed, which includes investment into expansion of provincial capacity.

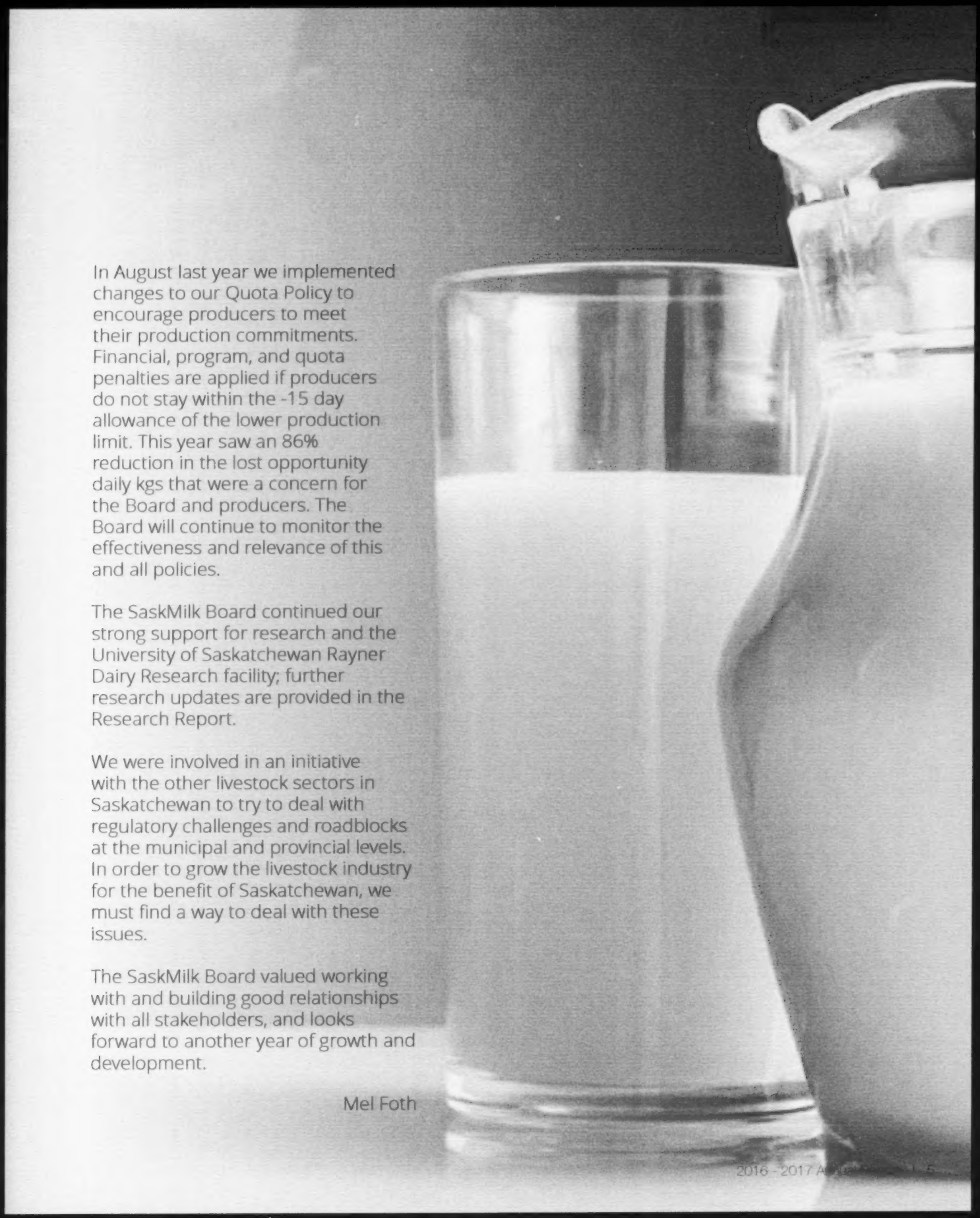
We continued to support our DEAP program, and were pleased with the results. This year we accepted 12 applicants into the program, for a total of 31 accepted since inception in 2015. This program has been well received by our own producers, stakeholders, and the new entrants themselves. This program continued to be effective in maintaining our production unit numbers; we have stopped the decline in farm numbers that had become the norm over the last many years. The SaskMilk Board is committed to ensuring quota is available to the program, particularly during this time of growth.

The National Ingredients Strategy (NIS) is in place and this year we focused on implementation of the various parts of the strategy. We made changes to our Pricing Board Order to enable the creation of Class 7 and adjustments to other Classes, and continued to be involved at the national level in developing other parts of the strategy that were still outstanding.

With the NIS progressing, we worked with the Alberta, British Columbia, and Manitoba milk boards to pool our provincial discretionary milk to attract the processing investment necessary for the future. This effort paid off in the investment in the MDI plant in Winnipeg, which will be starting up this fall with the goal of taking up to 150 million litres per year. The western provinces continued to work toward bringing even more processing capacity to the west, and confidential discussions with processors will continue. To ensure consistent supply and movement in the West, we will continue to work on interprovincial harmonization, collaboration, and cooperation.

A significant undertaking for the Board was the hiring of our new General Manager, Peter Brown, upon the retirement of Keith Flaman in April. The Board thanks Keith Flaman for the opportunity to work with him for the past three years, and wishes him all the best in his retirement. Peter brings a fresh perspective to our industry, and we value his experience and qualifications as we look forward to working with him in the years to come. The Board has most recently been working with Peter on our Strategic Plan, and plan to update it regularly.

ProAction® areas, including Milk Quality (CQM), animal care, traceability, and Bio-security, were all fully implemented or in progress. We continued to assist producers in their progress with workshops this year. It is important that each producer is registered and in compliance with proAction, and the Board made compliance mandatory in a Board Order approved by the Agri-Food Council in July.



In August last year we implemented changes to our Quota Policy to encourage producers to meet their production commitments. Financial, program, and quota penalties are applied if producers do not stay within the -15 day allowance of the lower production limit. This year saw an 86% reduction in the lost opportunity daily kgs that were a concern for the Board and producers. The Board will continue to monitor the effectiveness and relevance of this and all policies.

The SaskMilk Board continued our strong support for research and the University of Saskatchewan Rayner Dairy Research facility; further research updates are provided in the Research Report.

We were involved in an initiative with the other livestock sectors in Saskatchewan to try to deal with regulatory challenges and roadblocks at the municipal and provincial levels. In order to grow the livestock industry for the benefit of Saskatchewan, we must find a way to deal with these issues.

The SaskMilk Board valued working with and building good relationships with all stakeholders, and looks forward to another year of growth and development.

Mel Foth

General Manager's Report

I am very pleased to have joined the SaskMilk team this year as General Manager. It has been an active year for the dairy industry and one of transition for me and my family. I thank the Board of Directors and the staff of SaskMilk for their support and guidance in making this change. I took over the GM's role from Keith Flaman in April 2017, and my family (wife and two children) joined me in August, making the move from Ontario. I grew up on a farm in SW Ontario and have been in the agriculture industry my whole career. Just prior to coming to SaskMilk I worked in the banking industry.

SaskMilk is guided by a strategic plan that was finalized in the Fall of 2016. Considerable effort has been expended over the past year to make this plan a key focus for moving our industry forward. Through efforts of the management staff we put actions to the plan's Key Result Areas. The Board regularly reviews the strategic plan at board meetings to assess progress and to keep it relevant as the industry changes.

As our industry grows and evolves, the importance of working with our regional partners increases. The Western Milk Pool (WMP) has existed for the past 20 years. However, in this past year the WMP has had increased momentum toward collaborating in several ways. With the unprecedented growth in requirements and milk supply, the need for more processing capacity in western Canada has become critical. Making the most efficient use of our existing capacity as well as bringing new capacity online requires a regional effort with movement of milk across provincial borders. The WMP stepped into the role of facilitating discussions with processors and working to align transportation and receiving policies. WMP members meet regularly and our respective provincial technical staff coordinate efforts as a normal course of business. To assist with the increased WMP activity, the four provincial GM's hired a WMP Coordinator. This coordinator, Sarah Loehndorf, will come onboard in early August.

The SaskMilk staff values input from and interaction with producers. With the Board's support, we have strived this year to continue to improve our level of communication. Along with our monthly newsletter to producers, we regularly sent out notices on more time-sensitive developments. Twice-a-year producer meetings in three locations is another way for this interaction to happen. Issues that came to the forefront this year included the Dairy Farm Investment Program (resulting from CETA), NAFTA trade negotiations, and the review of Canada's Food Guide. These continue to be ongoing and we encourage producers to make their views known.

Finally, one of our key roles is to promote milk and dairy products to consumers in Saskatchewan. SaskMilk has done this in a variety of ways this year through advertising, sponsorships and attending events. Often, we leveraged our message through working with other groups and agencies. In fact, in this year alone, SaskMilk touched over 140 other organizations locally. This does more than just promote the wholesomeness and quality of dairy products. It highlights the integrity of the industry and its producers. We are particularly moved when producers of this province show their humanitarian side by assisting those in need, as when several thousand litres of milk were donated this past summer to the Food Banks in Regina and Saskatoon.

It has been a good year for Saskatchewan dairy industry and I look forward to the great things that will define us going forward.

Peter Brown

Dairy Farmers of Canada

It has been my pleasure to once again represent Saskatchewan at Dairy Farmers of Canada. In the pages that follow you will find a complete report of DFC activities that has been submitted by several of the DFC staff members. I encourage you to take the time to completely read and to understand the scope of involvement that your organization undertakes. The strength and vitality of the dairy industry is always the focus, and as producers we need to be the driving force that directs the efforts of our staff. We must engage when we are called to action and seek to be a unified force across Canada to keep our industry strong and sustainable into the future.

During this year I saw my role expand as I was elected to the role of Promotion Committee Chair. The task was challenging and also very fulfilling as we sought to bring a different and unique approach to the promotion of our product. The decision by Ontario to forge ahead with promotion on their own will bring challenges to be sure, but we will continue to look for partnerships that will bring the best return for the dollars that are committed by all producers. It is our intent to further leverage the good work being done on Canadian dairy farms through the implementation of proAction.

During the past year the board of DFC engaged in several governance sessions with an outside facilitator. With the election of a new President (Pierre Lampron) in July and with the turnover of 5 directors throughout the year, we do have the opportunity to chart a new course. Renewal can bring good change. The recent resignation of our Executive Director (Caroline Emond) and the anticipation of a new ED in the near future point to the continued need to be guided by clear policy that is based on solid governance principles.

Thank you for your continued support of the work of DFC and I trust you enjoy reading the reports that follow.

DFC Unveils New Logos

DFC unveiled its new organizational logo featuring a realistic cow and the words "Dairy Farmers of Canada" on November 1, 2016. The logo was designed to be eye-catching, easier to understand, create a stronger brand identity and leverage the positive relationship farmers have with consumers.

The Canadian Quality Milk logo will transition into Canada's dairy sector over a three to five year period, and indicate that the products are made with 100% Canadian milk or dairy ingredients.

National Ingredient Strategy Agreement in Principle

As part of the NIS, Class 7 was introduced in February 2017 to determine the value of innovative products that contain dairy proteins. Class 7 is a domestic policy that does not change Canadian regulations related to dairy imports, nor does it impact Canadian tariffs.

Policy and International Trade

The Canadian-European Union Comprehensive Economic Trade Agreement (CETA)

In November 2016, the government announced a $350 million transition package for the dairy sector in response to increased market access granted under CETA. Two programs were

announced: the $250 million Dairy Farm Investment Program, to help dairy farmers increase their productivity through upgrades to their on-farm equipment and technology, and $100 million allocated towards investments in Canada's dairy processing infrastructure.

Trans-Pacific Partnership (TPP)
Shortly after taking office, President Donald Trump withdrew the U.S. from the TPP, effectively ending the deal. In the months since the U.S' decision to pull out of the original deal, the 11 remaining partnering countries, led by Japan and including Canada, have met several times to discuss a potential deal without the U.S, known as TPP-11. Although there is reportedly interest from some of the countries on moving forward without the U.S, it remains to be seen if the talks will continue to progress any further. Regardless, DFC continues to monitor the situation as it develops, and has made known to the Government of Canada that should Canada elect to proceed with a TPP-11 agreement, the terms of the new agreement, including any market access granted, must reflect the loss of the U.S. from the original deal.

North American Free Trade Agreement (NAFTA)
The U.S. triggered the reopening of NAFTA in May and formal re-negotiations between Canada, the U.S. and Mexico are set to begin in August. The Canadian government has publicly stated its commitment to supply management and the protection of the dairy industry.

Government Relations
Between October 2016 – July 2017, DFC appeared four times before a variety of House and Senate Committees (Agriculture and Agri-Food, International Trade, Foreign Affairs, Agriculture and Forestry), and made two additional submissions to government consultations. The meetings covered a variety of topics, including international trade, climate change, animal welfare, and national food policy.

In addition to our Committee appearances, DFC continues to regularly meet with and engage government on several different files of interest to dairy farmers, including CETA, NAFTA, taxation, and national food policy, such as the Healthy Eating Strategy.

Under the proposed Strategy, the federal Government is currently considering several potential policies that could impact Canadian dairy farmers, including the introduction of Front-of-Package labelling, changes to the Canada Food Guide, and the introduction of restrictions to the marketing of food and beverages to children.

Health Canada has announced it will launch a revised Food Guide in 2019. As currently proposed, the revised Canada's Food Guide would eliminate the long-standing "dairy" category, and label many dairy products as "unhealthy", despite their widely recognized nutritional value. The evidence supporting milk as a part of a healthy, balanced diet has not changed, and we ask that it continue to be emphasized if the Food Guide.

Health Canada has also announced it will introduce new restrictions on the marketing of unhealthy food and beverages to children. If restrictions are introduced, DFC encourages the government to adopt a national policy that mirrors Quebec legislation, which DFC already follows. While DFC sees the value in restricting marketing to children, it will be important for the government to ensure that the proposed legislation does not impede the ability to conduct educational programs on healthy eating nor sponsor things like youth athletic programs or sports.

We know how beneficial dairy products are to Canadians, and we are working closely with the government to promote the benefits of dairy, and to avoid having our nutritious products improperly categorized.

During DFC's annual Lobby Day, held on Parliament Hill on February 7, 2017, farmers from across the country participated in 140 meetings, with more than 160 Members of Parliament and Senators, stressing the importance of continued support for supply management. That evening, DFC hosted its annual Dairy Showcase Reception which was attended by more than 500 government officials and industry stakeholders.

In July 2017, the Canadian Milk Matters website was re-launched as My Canadian Milk. The new website serves as a portal to share with the public the issues that impact Canadian milk, connect with like-minded advocates and harness grassroots support for our food sovereignty.

Communications

To ensure stakeholders and farmers are kept abreast on DFC's activities and updated on issues affecting the dairy sector, DFC produces an array of publications, sponsorships and media campaigns targeting different audiences.

To commemorate Canada's 150 anniversary, DFC published a book *Dairy Farmers: Deeply Rooted for a Strong Future*, to celebrate the contributions Canadian dairy farmers have made to the building and growth of our country. The book traces the emergence of dairy in each Canada's provinces by featuring a different farm family. In Saskatchewan, the Ell Family was profiled.

DFC was proud to sponsor the 2017 Canada Summer Games as a National Partner and presenting sponsor of Athletics, which began on July 28 and ran for two weeks, in Winnipeg, Manitoba. Featuring 16 sports, over 250 events and a major cultural festival, the 2017 Canada Summer Games welcomed over 4,000 athletes and coaches and more than 20,000 visitors, and is Canada's largest multi-sport event for young athletes. DFC's brand was present through on-site activations, billboards and signage, print advertising, and commercial broadcasts on TSN throughout the Games.

Marketing

This year, several campaigns were run to support consumers choosing milk and milk products as an important part of their diet. *If it's made with Canadian Milk – It's worth crying over* debut in the New Year and introduced the new certification mark of origin. A companion website, qualitymilk.ca, was launched simultaneously. The *Pour a Tall One* campaign, launched in February 2017, presented milk as an adult beverage for male consumers. The ad mimicked a traditional beer commercial with a group of men playing hockey before heading to the local watering hole for a cold one - milk. The summer ad featured a group of men playing baseball. The new cheese campaign targeted millennials between 18-34 and positioned cheese as a "national treasure, a global competitor and an indulgence worth sharing." It featured the animated short film, Mia and Morton and the slogan *Canadian Cheese: Crafted with Creativity*. The Milk Glass, introduced a new way to drink milk – a special glass designed specifically for milk. The entire stock of 3,000 limited edition glasses was depleted within 24 hours of the commercials airing.

Nutrition
In addition to a submission in response to the proposed revisions to the Canada Food Guide, DFC's team of registered dietitians hosted a free webinar for health professionals to talk about the consultation and present the latest scientific studies surrounding dairy and the well-established evidence of the benefits of dairy products in a healthy and balanced diet.

The 16th edition of the cross-Canada symposium on Nutrition and Health, entitled "Making Sense of Dietary Patterns", attracted more than 1,000 dietitians and health professionals to Edmonton, Toronto, Montreal and Moncton, and more than 1,500 participants watched the event online.

In October DFC partnered with provincial organizations and farms to give dietitians the opportunity to visit a dairy farm. The purpose of the tours is for dietitians to gain a better understanding about certain farm practices, and how farmers care for their animals, the environment and produce safe, quality milk.

Since the launch of the DFC Physician Education Program in October 2016, DFC medical representatives have been meeting with doctors both one-on-one and by participating in conferences catered specifically to doctors to educate them on the science surrounding dairy products and cardiovascular health so they can feel confident recommending dairy products to patients with cardiovascular conditions.

Research
DFC's 2016/2017 research budget amounted to approximately $2.4 million and the total research value leveraged from DFC contribution to drive innovation in the Canadian dairy sector reached over $10 million.

Fuelling Women Champions
A total of 20 recipients received a grant of $5,000 each from the Champions Fund to purchase equipment, pay for tournament fees and access to training facilities. The 2017 fund was expanded to $15,000 to support more women athletes.

Partnerships
Tim Hortons began selling lattes made with 100% Canadian milk in its stores in May 2017 and its partnership with DFC was promoted in stores and on Tim's TV.

DFC partnered with the Tim Hortons Children's Foundation to support the 20,000 Canadian children and youth who benefit from their programs every year. Pierre Lampron joined a 24 others to climb Mount Kilimanjaro in Tanzania to raise funds for THCF.

Blaine McLeod

Research Report

SaskMilk enjoyed another successful year in our support regarding research. In order to better support the research area, SaskMilk expanded the Research Committee from one Board Director to two Board Directors and an assigned staff person. This has proven to be extremely helpful in handling the growing time and resource commitments needed to properly support and encourage research for the benefit of Saskatchewan dairy farmers.

Another very successful Dairy Info Day was held in January in partnership with the University of Saskatchewan – in excess of 130 people were in attendance to hear from researchers and students, and to provide feedback on the direction of future initiatives.

A significant commitment was made this year by SaskMilk to the Rayner Dairy Research and Teaching Facility. In addition to the already generous amount of quota leased to the Facility by our dairy farmers, we contributed an additional 30 kgs of daily quota. This increase will allow for better economies of scale at the Facility, as well as expanding their project capacity. This new quota contribution has a value of almost $1 million, which brings our total quota contribution value to over $5 million. With this being a capital contribution by only 160 farms, it is truly amazing, and all of our industry should be very proud.

In addition to the quota commitment, SaskMilk also allocates $50 – 60,000 in cash from general revenue for research projects. This cash contribution allows us to leverage funding from other industries and government sources, stretching the dollars to many times our contribution.

Although we have not formally started an extension program, extension-type assistance is readily available to any member who wishes to access it. Our relationship with the Western College of Veterinary Medicine, Vaccine and Infectious Disease Organization, and the Colleges of Agriculture, Engineering, Pharmacy and Chemistry are excellent, and their knowledge and willingness to assist dairy farmers are second to none!

We have continued to work on opening the door to greater collaboration amongst fellow commodity partners within our province, and fellow milk boards from across Canada to make better use of our resources, and look forward to seeing the benefits of this cooperation emerge in the coming years.

Jack Ford

Marketing, Nutrition, and Education

Marketing Initiatives
A year of transition is the best way to describe 2016 – 2017. SaskMilk agreed to begin supporting a national strategy, led by the Dairy Farmers of Canada, for the promotion of white and chocolate fluid milk, while maintaining a local provincial presence.

2016 – 2017 Charitable Activities and Donations:

- Diabetes Canada
- Osteoporosis Canada
- Dental Health
- Saskatchewan Deaf & Hard of Hearing
- Saskatchewan Down Syndrome
- Saskatchewan Federation of Police Officers
- Schizophrenia Society
- Jim Pattison Children's Hospital Foundation
- Lawson Heights Mall – Santa's Milk Drive 'A Very Dairy Christmas': this initiative won a prestigious award in the ICSC Global Awards in the 'Cause Related Marketing'

2016 – 2017 Sponsorships:

- Regina Red Sox
- Saskatchewan High School Athletics Association - 321 Registered High Schools
- Saskatchewan High School Rodeo
- Saskatoon Public Schools Foundation
- Saskatchewan Heritage – over 3330 students
- Saskatchewan Junior Hockey League – 12 teams in Saskatchewan
- Societe Historique Saskatchewan
- Special Olympics
- Western Hockey League – 4 teams in Saskatchewan
- U of Regina
- U of Saskatchewan
- Farm and Food Care
- Culinary Arts Program at Saskatchewan Polytechnic Institute
- Saskatchewan Canada Games Qualifier
- Saskatchewan First Nations Summer Games
  5,000 athletes, coaches and officials and 2,500 volunteers
- Saskatchewan Summer Games
  2,000 athletes, coaches and officials and 1,500 volunteers
- Regina Queen City Exhibition
- Saskatoon Exhibition

In addition, 142 rural and urban organizations received support for various events.

Media:

Bell Media - TV
Wheatland Café – Provincial

Big Dog - Radio
- Three Helpful Hints
- Cooking With Chase

GX 94 - Radio
- Supper in the Field
- Athlete of the Month

Rawlco Radio
- Provincial Campaign
- Nutrition Month
- Z99 Radio Thon

Billboards (4 Provincial locations)
- Chaplin, Gavin, Fort Qu'Appelle, Duck Lake

Rink Boards (12 Provincial locations)
- Balgonie, Bethune, Dalmeny, Delisle, Grenfell, Gull Lake, Kipling, Lanigan, Osler, Outlook, Rose Town, and Rosthern

Print
- 'Saskatchewan Cooks' - Provincial Commodity Magazine
- Fall and Spring issues of "From our Farms to your Table"

Trade Shows
- Participated in 8 provincial trade shows

Activations and Experiential
- Milk Moooves You – The on-pack promotion had 92,968 Saskatchewan Entries, and saw a Manitoba/Saskatchewan lift in sales of 1.18%
- Milk Rewards contest had 7,267 Saskatchewan entries
- 15,000 Milk Calendars were distributed

Experiential Activations were minimal as we endeavored to transition to Dairy Farmers of Canada programs. The chocolate milk messaging 'Powered by Chocolate Milk' saw two experiential campaigns, one under the 'Recovery Camp' activation and the other under the 'Recovery Crew'.

'Recovery Camp' was created as a sampling program with high distribution aiming to promote chocolate milk as a post-workout recovery beverage. Chocolate milk samples were provided, at no charge, by our local processors. Pre-race messaging was delivered while inviting participants back for a complimentary chocolate milk at the 'point of sweat', when athletes needed it most.

'Recovery Crew' was created as a sampling program with high distribution that aims to promote chocolate milk as a post workout recovery beverage through the "No Hype. Just Help" campaign. Chocolate milk samples were again provided by our local processors at no charge to targeted athletes at multiple touch points through impactful and memorable engagement programs. Regional Kinesiology students & recent graduates drove the trial and adoption of chocolate milk through one-on-one conversations at community sporting events.

'Recovery Camp' and SaskMilk participated in the Queen City Marathon with an attendance of 7,000 athletes. 5000 participants were reached by 'Recovery Camp' and 2000 samples distributed. 'Recovery Crew' and SaskMilk had participated at three events reaching 1,525 participants while distributing 1200 units of 'Milk 2 Go'.

Nutrition
Farm and Food Care, Dairy Farmers of Canada, and SaskMilk partnered to provide University of Saskatchewan Dieticians with the first Farm Tour. Over 40 student dieticians started the tour at Ilta Grain operation in Saskatoon, then went on to the University of Saskatchewan Greenhouse to witness how researchers study crops and how new pulse varieties are developed. Saving the best for last, the dieticians then toured the Elkrest Dairy Farm to see first-hand what a dairy farm looks like, how it operates, and the care and attention that goes into producing nutritious milk!

Nutrition Month - March 2017
SaskMilk distributed 1600 bilingual and 400 English Nutrition Month posters.

Sport Nutrition
SaskMilk provided the province's High Schools and Sport Teams FREE Sport Nutrition Workshops. The main Objective of the Sports Nutrition Education Program was to provide young athletes and active youth across Saskatchewan with an understanding of the basics in sports nutrition, healthy eating, and its impact on health and optimal athletic performance. This year SaskMilk's Registered Dieticians participated in 69 Speaking Opportunities with 1910 students in attendance from 28 School Divisions.

Education
Agriculture Education
- Ag in the Classroom - Ag in the City
- Yorkton Exhibition
- Agribition
- Lloydminster Ag Education Showcase - 60 teachers and 1400 students participated
- Farm to Fork School Tours - 10 Rural locations and 1869 students participated
- Agriculture Experience for Teachers
- Government of Saskatchewan 2017 Farm Food

School Milk
School Milk supported schools in ordering milk from the dairy producer or retail outlet of their choice. Schools registered to receive prizes to support physical activity or learning and have the opportunity to participate in contests, all to make participation in the SaskMilk School Milk program more fun. Messaging in the SaskMilk School Milk program was intended to encourage the parent and school to serve milk more regularly. This year, the SaskMilk School Milk program attracted 425 schools with 85,100 students.

Production Report

As of July 2017 Saskatchewan had 161 dairy operations in the province.

The total milk shipped for the year was 260,951,549 litres. This was an annual increase of 10,139,607 litres or 4.04%. Butterfat production for the dairy year was 10,471,581 kilograms, an increase over the previous year of by 397,128 kilograms of butterfat or 3.94%.

In the Western Milk Pool, Class 1 fluid sales were 6.54%. Total Class 1 fluid sales in the WMP were 88,124,854 litres; this is down from the previous year by 11,077,842 litres or 1.24%.

The average milk composition was:

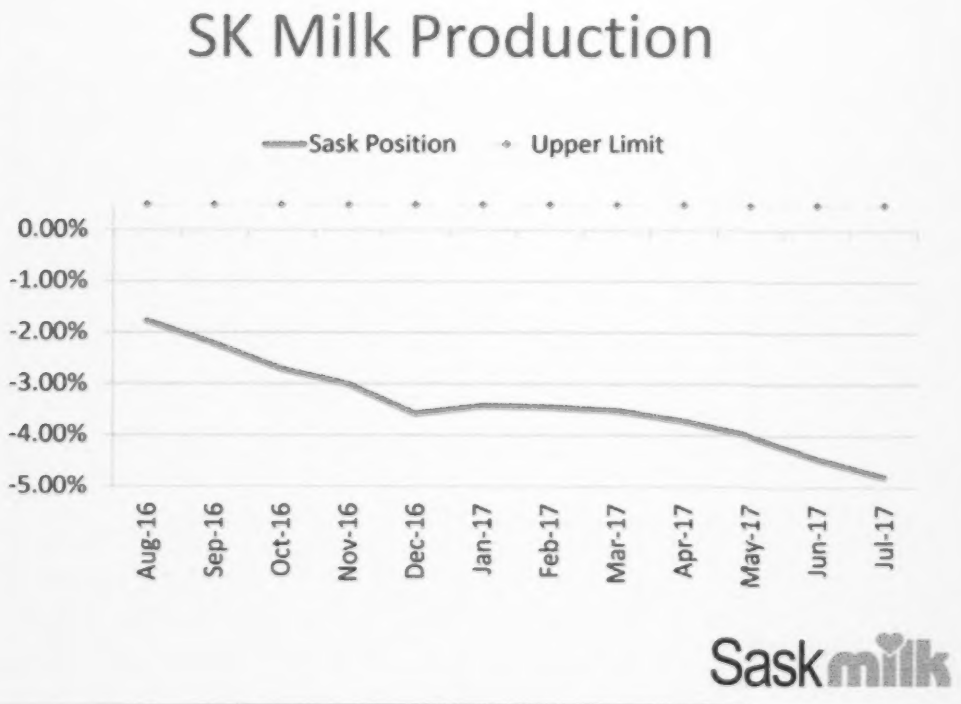
Butterfat	4.0128%
Protein	3.3384%
Other Solids	5.7231%

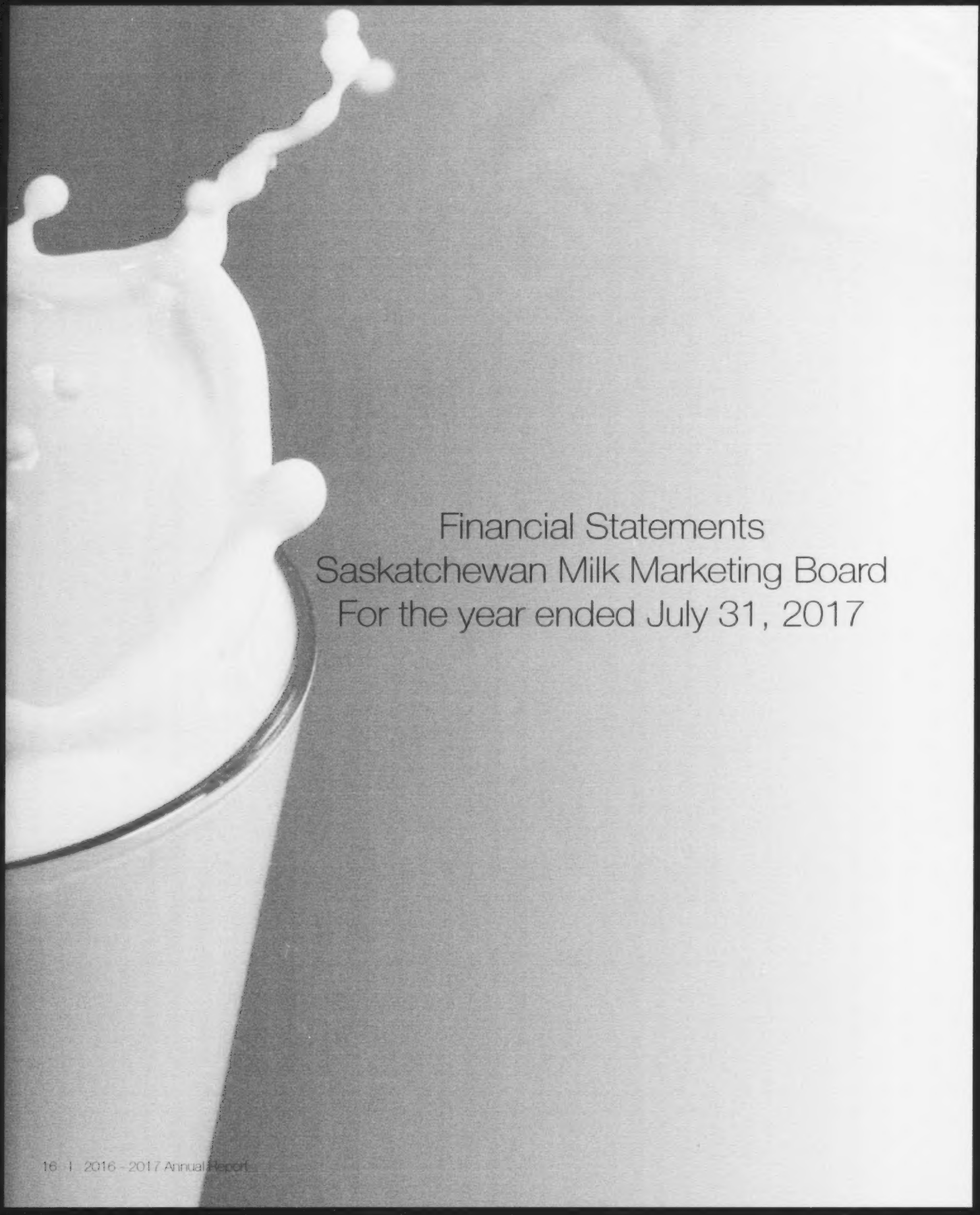
Average blend price:

All Milk	$80.01/hl
Butterfat	$19.90/kg

Average component prices:

Butterfat	$11.30432/kg
Protein	$ 8.304235/kg
Other Solids	$ 1.211006/kg





Financial Statements
Saskatchewan Milk Marketing Board
For the year ended July 31, 2017

Management's Responsibility for the Financial Statements

To the Board of Directors:

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian accounting standards for not-for-profit organizations and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors are composed entirely of Directors who are neither management nor employees of Saskatchewan Milk Marketing Board ("SaskMilk"). The Board of Directors are responsible for overseeing management in the performance of its financial reporting responsibilities, and for recommending approval of the financial statements to the Board. The Board of Directors has the responsibility of meeting with management and the external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the SaskMilk's external auditors.

MNP LLP, an independent firm of Chartered Professional Accountants, is appointed by the Board of Directors to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Board and management to discuss their audit findings.

October 23, 2017

General Manager

Independent Auditors' Report

To the Directors of Saskatchewan Milk Marketing Board:

We have audited the accompanying financial statements of Saskatchewan Milk Marketing Board ("SaskMilk"), which comprise the statement of financial position as at July 31, 2017, and the statements of operations and changes in net assets, and cash flows for the year ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian accounting standards for not-for-profit organizations and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of SaskMilk as at July 31, 2017 and the results of its operations, changes in net assets and cash flows for the year ended in accordance with Canadian accounting standards for not-for-profit organizations.

MNP LLP

Regina, Saskatchewan
October 23, 2017

Chartered Professional Accountants

Saskatchewan Milk Marketing Board

Statement of Financial Position

As of July 31, 2017

	2017	2016
Assets		
Current		
Cash	$1,294,515	$1,900,464
Accounts receivable	10,733,378	11,128,486
GST receivable	19,008	9,729
Prepaid expenses	250,168	169,808
	12,297,069	**13,208,487**
Investments (*Note 3*)	1,292,168	1,282,843
Capital Assets (*Note 4*)	185,337	387,935
	$13,774,574	**$14,879,265**
Liabilities		
Current		
Accounts payable and accrued liabilities	$11,028,201	$11,809,940
Internally Restricted Fund - Industry Development *(Note 9)*	615,813	673,755
General Fund	2,130,560	2,395,570
Net Assets	**2,746,373**	**3,069,325**
	$13,774,574	**$14,879,265**

Commitments (*Note 6*)

Approved by the Board of Directors

Original Signed by Mel Foth

Director

Original Signed by Brad Kornelius

Director

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Operations

For the 12 months ended July 31, 2017

	BUDGET *(Note 10)* (Unaudited)	2017	2016
Revenue			
Milk sold to processors	$181,200,896	$194,583,783	$179,161,287
Milk pools (*Note 4*)	18,851,820	16,715,809	21,358,809
Milk pool administration and assessment fees *(Note 11)*	4,065,315	2,287,116	2,941,865
Interest	60,000	30,540	41,024
Investments	-	39,671	20,643
Milk quality penalties	120,000	210,507	202,104
Licence fees and miscellaneous	546,542	646,573	568,591
Promotion Levy	3,780,000	3,914,278	3,772,998
Grants	-	-	230,925
	$208,624,573	**$218,428,277**	**$208,298,246**
Expenses			
Milk purchased from producers	$201,076,675	$210,549,864	$200,579,016
Administrative expense	2,399,951	2,543,973	2,447,971
DFC Industrial Levy and Membership	2,244,111	2,264,716	1,818,441
Milk West	489,500	538,942	1,094,826
Salaries	1,096,717	1,059,407	896,822
Marketing, Nutrition and Education Activities	451,935	537,468	467,390
Travel, sustenance and vehicle expense	297,837	207,528	265,155
School Milk Program	131,500	131,608	121,393
Employee benefits	251,379	92,004	170,950
Rent	152,299	159,210	147,461
Honoraria	129,650	122,300	125,475
Amortization	166,508	59,942	107,932
Legal	10,000	14,205	-
Cost of production study	17,000	16,662	16,886
	$208,915,062	**218,297,829**	**$208,259,718**
Excess of revenues over expenses before other items	(290,489)	130,448	38,528
Other Items			
Impairment Loss - Milk Management System	-	(439,980)	-
Gain (loss) on sale of investments	-	2,960	(7,819)
Foreign exchange loss	-	(4,990)	(7,787)
Unrealized gain (loss) on market value of investments	-	(11,391)	39,139
(Deficiency) excess of revenues over expenses	($290,489)	($322,953)	$62,061

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Changes in Net Assets

For the 12 months ended July 31, 2017

	General Fund	Internally Restricted for Industry Development	2017	2016
Net assets, beginning of year	$2,395,570	$673,756	$3,069,326	$3,007,265
Excess of revenue (expenses)	(322,953)	-	(322,953)	62,061
Interfund transfers (Note 9)	57,943	(57,943)	-	-
Net assets, end of year	$2,130,560	$615,813	$2,746,373	$3,069,326

See accompanying notes to the financial statements

Saskatchewan Milk Marketing Board

Statement of Cash Flows

For the 12 months ended July 31, 2017

	2017	2016
Cash Flows from Operating Activities:		
Cash receipts from processors and fees	218,743,895	207,068,196
Interest received	70,211	61,667
Cash paid to producers	(210,369,595)	(200,285,389)
Cash paid to other suppliers	(7,578,977)	(5,330,748)
Cash paid to employees and board members	(1,151,411)	(1,068,615)
Cash flows from operating activities	(285,877)	445,111
Cash Flow used for Investing Activities		
Purchase of tangible capital assets	(297,325)	(251,510)
Purchase of investments	(539,765)	(1,610,933)
Proceeds on disposal of investments	517,018	348,801
Cash flows from investing activities	(320,072)	(1,513,642)
Net decrease in cash during the year	(605,949)	(1,068,531)
Cash position, beginning of year	1,900,464	2,968,995
Cash position, end of year	1,294,515	1,900,464

See accompanying notes to the financial statements.

1. Incorporation

The Saskatchewan Milk Marketing Board (SaskMilk) is a producer marketing board established under the Agri Food Act effective October 1, 2010. The Board's general role and responsibility is to design and implement dairy policies and programs for the benefit of producers and other industry stakeholders.

In particular, the Board is responsible for:

- collection and purchase of producer milk;

- transport and sale of milk to distributors and processors; and

- compensate producers through a multiple component pricing system and manage production levels in conjunction with the National and Regional Marketing Agreements; and

- collect and administer fees or levies required to operate the provincial milk pool, and to fund Board program activities (promotion and nutrition) of benefit to the industry.

The Board provides leadership to the Saskatchewan dairy industry in addressing provincial, regional, national and international issues. It also promotes the interests of Saskatchewan producers at Western Milk Pool and Canadian Milk Supply Management Committee meetings.

Industry stakeholders' participation in policy and program consultations is facilitated primarily through semi-annual and annual producer meetings.

2. Significant accounting policies

The financial statements have been prepared in accordance with Canadian accounting standards for not-for-profit organizations set out in Part III of the CPA Canada Handbook – Accounting, as issued by the accounting Standards Board in Canada and include the flowing significant accounting policies:

a) Revenue Recognition

Revenue from the milk sold to the processors is recognized when the milk is delivered to the processor.

b) Cash

Cash is comprised of monies on deposit with the bank.

2. Significant accounting policies (continued)

c) Capital Assets

Capital assets are recorded at cost and are amortized over their estimated useful lives. Amortization expense is calculated using the straight line amortization at the following annual rates:

Leasehold Improvements	10 years
Milk Payment System	10 years
Office furniture and equipment	3-10 years
Storage container	20 years

d) Use of estimates

The preparation of financial statements in conformity with Canadian accounting standards for not-for-profit organizations requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. Accounts receivable are stated after evaluation as to their collectability and an appropriate allowance for doubtful accounts is provided where considered necessary. These estimates and assumptions are reviewed periodically and, as adjustments become necessary they are reported in excess of revenues and expenses in the periods in which they become known.

e) Income taxes

SaskMilk is incorporated as a not-for-profit organization and is exempt from income taxes.

f) Financial Instruments

SaskMilk recognizes its financial instruments when they become party to contractual provisions of the financial instrument. All financial instruments are initially recorded at their fair value. SaskMilk financial instruments consist of cash, accounts receivable, investments and accounts payable. SaskMilk has elected to record investments at fair value. All other financial instruments are subsequently measured at amortized cost.

2. Significant accounting policies (continued)

g) Financial Asset Impairment

SaskMilk assesses impairment of all of its financial assets measured at cost or amortized cost. SaskMilk groups assets for impairment testing when available information is not sufficient to permit identification of each individually impaired financial asset in the group. Management considers whether the issuer is having significant financial difficulty and/or whether there has been a breach in contract in determining whether objective evidence of impairment exists. When there is an indication of impairment, SaskMilk determines whether it has resulted in a significant adverse change in the expected timing or amount of future cash flows during the year. If so, SaskMilk reduces the carrying amount of any impaired financial assets to the highest of: the present value of cash flows expected to be generated by holding the assets and the amount that could be realized by selling the assets. Any impairment, which is not considered temporary, is included in current year excess of revenues over expenses.

SaskMilk reverses impairment losses on financial assets when there is a decrease in impairment and the decrease can be objectively related to an event occurring after the impairment loss was recognized. The amount of the reversal is recognized in the excess of revenue (expenses) in the year the reversal occurs.

3. Investments

	2017	2016
Market Value		
Fixed income	573,125	584,729
Equities	516,655	541,122
Mutual Funds	111,090	105,706
Cash and cash equivalents	91,298	51,286
	$1,292,168	**$1,282,843**

4. Capital Assets

	Cost	Accumulated Amortization	2017 Net Book Value	2016 Net Book Value
Milk Payment System	$429,879	356,637	73,242	80,848
Leasehold Improvements	70,948	45,308	25,640	28,141
Office furniture and equipment	134,569	109,469	25,100	37,915
Handhelds	61,355	-	61,355	-
Milk Management System *(Note 12)*	-	-	-	241,031
	$696,751	**$511,414**	**$185,337**	**$387,935**

5. Milk Pools

Effective August 1, 1991 (and continued August 1, 2003), the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in Prince Edward Island, Nova Scotia, New Brunswick, Quebec, Ontario, Manitoba, Alberta, British Columbia and the Canadian Dairy Commission (CDC). As of September 2006, Newfoundland and Labrador have signed on. This arrangement provides for pooling of revenues from sales of milk components in industrial and special classes of milk sold in domestic and external markets. CDC administers the Industrial and Special Class Pool.

Effective March 1, 1997, the previous Saskatchewan Milk Control Board entered into an arrangement with its counterparts in British Columbia, Alberta and Manitoba and CDC. This arrangement provides for pooling of all revenues from sales of Fluid Milk and Industrial Milk, including special classes, by producers to processors in the four western provinces. The purpose of the arrangement is to pool producer returns as if the western provinces constituted a single market. CDC administers the Western Milk Pool.

The Saskatchewan Milk Marketing Board has replaced the former Saskatchewan Milk Control Board in all previous agreements.

Based on each province's monthly utilization, CDC will either distribute a portion of, or require a contribution to the Industrial and Special Class Pool and Western Milk Pool. Saskatchewan received contributions of $16,715,809 (2016 - $21,358,810) from the milk pools.

6. Commitments

SaskMilk has entered into a lease for office space. The future minimum lease payments are as follows:

2018	$102,845
2019	$106,955
2020	$112,307
2021	$117,891

7. Pension plan

SaskMilk participates in the Public Employees' Pension Plan, a defined contribution or benefit plan. SaskMilk obligations to the Plan are limited to 7.60% (2016 – 7.60%) of earnings for all employees for current services. During the year, SaskMilk contributed $70,273 (2016 - $62,834) to the plan, which is recorded as an expense.

8. Financial instruments

SaskMilk, as part of its operations, carries a number of financial instruments. It is management's opinion that SaskMilk is not exposed to significant interest, currency, credit, liquidity or other price risks arising from these financial instruments except as otherwise disclosed.

a) Fair value

SaskMilk financial instruments consist of cash, investments, accounts receivable, and accounts payable. The carrying amount of the Organization's financial instruments approximates their fair value, due to their relatively short-term maturities. Investments are recorded at fair value based on prices quoted in an active market.

b) Credit risk

SaskMilk is subject to credit risk as all of the Board's milk sales are to one processor.

SaskMilk is also exposed to credit risk in accounts receivable in the event that a customer fails to honour its obligations. Credit risk is managed with regular credit assessments and active collection activity. In the event that an account is deemed uncollectible, the account will be written off as a bad debt.

c) Interest rate risk

Interest rate risk is the risk that the value of a financial instrument might be adversely affected by a change in the interest rates. Changes in market interest rates may have an effect on the cash flows associated with some financial assets and liabilities, known as cash flow risk, and on the fair value of other financial assets or liabilities, known as price risk. SaskMilk is exposed to interest rate risk primarily relating to its investments.

d) Foreign currency risk

Foreign currency risk arises from SaskMilk holding investments denominated in US currency. Fluctuations in the relative value of the Canadian dollar against the US currency can result in a positive or negative effect on the value of the investments. SaskMilk manages its foreign currency risk by limiting the investments in US funds.

9. Internally Restricted Fund

A portion of the Industry Development Fund (IDF) on Class 1 milk is designated for Internally Restricted Operations – Industry Development. The IDF is being pooled in the WMP for the following: Quality Bonus, Inhibitor Testing Reagent, Environmental Compliance, Milk Quality Testing, Milk Metering, and Administration. SaskMilk receives revenue for Milk Quality Testing, Milk Metering and Administration from the WMP and, for the present, is paying into the WMP for Quality Bonus, Inhibitor Testing Reagent and Environmental Compliance.

IDF Funds were used for the following programs in 2016-2017: Inhibitor Testing Reagent – paid to the Processor, Quality Milk Bonus – paid to the Producers, Environmental Compliance – portion used to reduce haulage charges to Producers, Milk Quality Testing – payment for portion of component testing and testing supplies (i.e. sample bags, sample vials, and truck seals), CQM Program, and proAction.

10. Budgeted figures

The budgeted figures provided in the statement of operations and changes in net assets are presented for information purposes only and are unaudited. The 2016 – 2017 Budget was approved by the Board of Directors on June 30, 2016.

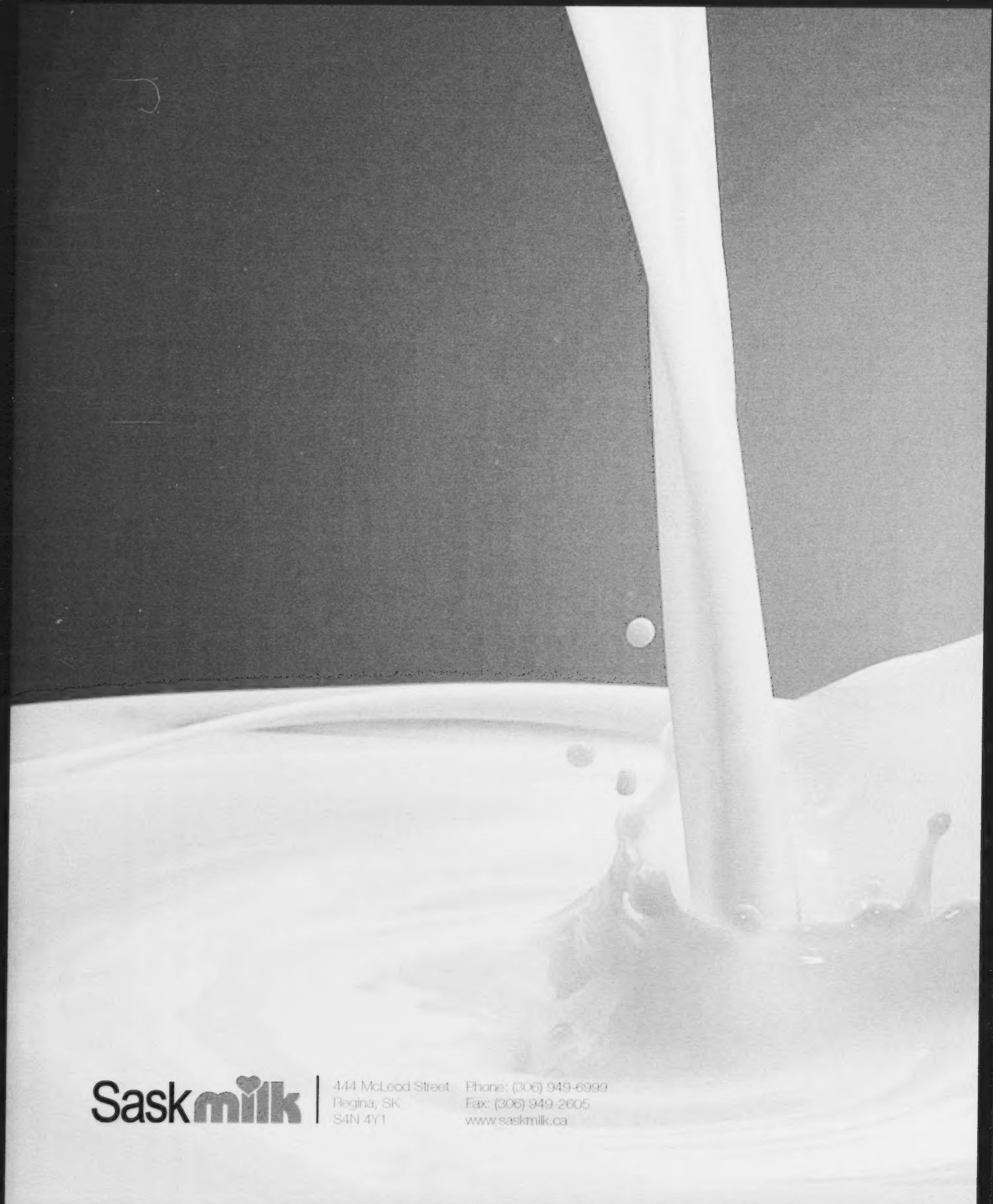
11. Milk pool administration and assessment fees

Included in the Milk pool administration and assessment fees is the following:

	2017	2016
IDF revenue	$1,654,600	$1,726,151
SMMB assessment	1,696,186	1,634,965
CDC surplus refund	149,277	494,704
Fluid shrink	282,730	283,836
Component testing	21,175	21,076
Adjustments	(1,516,852)	(1,218,867)
	$2,287,116	**$2,941,865**

12. Subsequent event

Over the past few years, SaskMilk has been investing in the development of a new Milk Management System. Subsequent to year end, the Board determined that the desired outcomes from the Milk Management System would not be achieved, and have therefore recorded an impairment and written the development costs off.



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